
Minutes

Board of Natural Resources

December 7, 2004
Natural Resources Building, Olympia, Washington

BOARD MEMBERS PRESENT

Bob Nichols for Governor Gary Locke

Glen Huntingford, Commissioner, Jefferson County

Bruce Bare, Dean, University of Washington, College of Forest Resources

R. James Cook, Interim Dean, Washington State University, College of Agricultural, Human, and Natural Resource Sciences

BOARD MEMBERS ABSENT

Doug Sutherland, Commissioner of Public Lands, teleconferenced in via phone

Terry Bergeson, Superintendent of Public Instruction

CALL TO ORDER

Glen Huntingford chaired this meeting in Commissioner Sutherland's absence. Chair Huntingford called the meeting to order at 9:10 a.m. on, December 7, 2004, in Room 172 of the Natural Resources Building.

APPROVAL OF MINUTES

MOTION: Bob Nichols moved to approve the November 2, 2004, Board of Natural Resources Meeting Minutes.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously.

TIMBER SALES

Proposed Timber Sales for January 2005 (Handout 1)

Jon Tweedale, Product Sales Manager, presented. He began with a brief update on the timber market stating that log and lumber markets were reacting within seasonal norms. He explained that Canada would boost the timber market with the new log export tax and a strengthening economy.

November 2004 Sales Results:

6 sales offered & 6 sold; 21 mmbf offered & 21.1 mmbf sold; \$6.7 million minimum bid & \$7.7 million sold; \$318/mbf offered & \$365/mbf sold; average number of bidders, 2.5; 15% above minimum bid.

*The Contract Harvesting Sale Ridge Wire was not included in the results as the balance of sorts not sold in November will be re-offered later this month in December. (5 sorts sold...3 sorts to be re-offered) Report of this sale will be at the January BNR meeting.

Contract Harvest Sale Ridge Wire Preliminary Results:

5 out of 10 sorts sold; greater than 20% of volume was not sold; unsold sorts modified and reappraised; 3 remaining sorts to be auctioned December 13.

Proposed December Contract Harvest Re-offer of sorts:

Ridge Wire CH sale sold 5 sorts in November and the Department will market and re-offer 3 of the sorts. The final results of this sale will be presented at the next BNR meeting. The other 2 Ridge Wire conifer 2+ inch utility sorts will be dropped, as no current viable local market is available. The auction of the 3 sorts is planned for December 13th in NW Region. The Contract Harvest Resolution 1096 as written requires DNR to bring unsold sorts back to the Board prior to auction if during the initial offering the unsold sorts amount to more than 20% of the total volume of the sale.

Contract Harvest Re-offer Ridge Wire Sorts:

- Sort 3 – Douglas fir peeler 12+ inches; \$556/mbf
- Sort 8 – Red cedar 5+ inches; \$787/mbf
- Sort 10 – Hardwood 2+ utility; \$16/ton
- Total delivered value on all 3 sorts = \$602,800

Mr. Tweedale asked for the Board's approval of the re-offer of the Ridge Wire sorts.

Proposed January 2005 Board Sales:

12 sales for 56.1 mmbf; \$18.2 million minimum bid; average \$325/mbf

January 2005 Board Sales:

Recommend all 13 sales at 56,149 mbf with a minimum bid of \$18,228,000 be approved for auction for the month of January 2005.

Chair Sutherland added that the difference between the Canadian dollar and the U.S. dollar, with the decline of the U.S. dollar, would have a significant impact on the overall market as people look to exports.

MOTION: Jim Cook moved to approve the January 2005 Timber Sales.

SECOND Bruce Bare seconded.

ACTION: Motion passed unanimously

Update on Implementation Strategies for San Juan Islands Trust Lands Management Plan (Handout 2)

Robin Estes, Asset Management Assistant Division Manager, presented. Ms. Estes began by showing a map with the remaining properties in San Juan County. She detailed the history of the San Juan transactions:

- 1986 San Juan County and DNR jointly adopted the San Juan Islands Trust Land Management Plan, developed in accordance with a memorandum of understanding signed January 24, 1984.
 - o 10 school trust parcels have been transferred (nine to public agencies)
 - o 12 school trust parcels remain
- 2001 the plan was updated and amended by San Juan County in consultation with DNR's Northwest Region
- September 2002 San Juan County Commissioner's submitted a proposal to Commissioner Sutherland for the future transfer and stewardship of remaining DNR managed school trust properties in San Juan County

- September 2002 Commissioner Sutherland responded favorably to the Commissioners that their proposal is generally consistent with the San Juan Islands Trust Land Management Plan that has guided DNR and the County since 1986
- Since September 2002, DNR and San Juan County have worked with State Parks, Bureau of Land Management, and National Park Service to help further implement the plan.
- April 27, 2004, San Juan County Board of County Commissioners were updated and a public open house was held in Friday Harbor regarding the status and future plans of DNR land holdings in San Juan County

She stated that there were three properties being held in fee by the Department and were purchased through IAC grants; the Department is working on transferring those properties to State Parks and San Juan County.

She remarked that Mr. Challstedt would be presenting the Shark Reef Common School property, which will be transferred to San Juan County through the Trust Land Transfer process. She referred to a chart showing the three purchased parcels under the IAC grants (Griffin Bay, Upright Channel & Center Island) stating that they should be completed with the SEPA process by Summer 2005 and ready for conveyance to San Juan County and State Parks. Ms. Estes talked about the remaining parcels that would be moved out of the trust ownership in the next biennium.

She commented on a previous question from Mr. Nichols regarding the role of the Bureau of Land Management (BLM) explaining that their mission is to sustain the health, diversity, and land & productivity of public resources for current and future generations.

Bonnie Bunning, Executive Director, Policy and Administration, came forward and stated that as Ms. Estes had mentioned, the Department and San Juan County have been working together on a 20 year old plan to reposition the trust assets out of the islands, and allow San Juan County to realize their goals of securing open space and recreational sites on the islands.

She remarked that since 2001, DNR has very actively pursued this objective adding that the timing is right to transfer some property directly to the County land bank using County open space tax funding; to move some properties through the Trust Land Transfer Program, and to auction others. Achieving these goals is very important to the County, DNR, and to the citizens of the State who will benefit. The transactions today begin to implement those plans, and move some valuable but unproductive real estate off the islands and reinvest it for the Common Schools. The first of those transactions is the Shark Reef property located on Lopez Island.

Ms. Bunning wanted to call this particular transaction to the Board's attention because it presented some valuation challenges, and sparked much debate within the Department so that they could bring a good recommendation forward to the Board in their capacity as the Board of appraisers.

The Department extensively consulted with the Interagency Committee for Outdoor Recreation (IAC), The Attorney General's Office, and with the State Auditor's Office (SAO) to ensure that both the interests of the trust and the general public were appropriately considered.

She commented that in the past staff have occasionally brought a transaction to the Board in a similar vein, when the circumstances of the transfer presented difficulties with the appraisal. She noted that some may recall the Harrison Hospital sale where the BNR approved a value greater than the appraisal, or some of the parcels in SW Washington where high quality marbled murrelet habitat was difficult to

value for transfer. In both cases the appraised values were affected by constraints and the BNR was asked to decide on an appropriate value.

Ms. Bunning explained that 21 years ago the Shark Reef property was encumbered with a 50-year recreation contract with IAC, and an accompanying lease between the BNR and the Department. In applying the market appraisal standards, the presence of the lease is taken into account, since any buyer on the open market, would have a 29 year commitment to maintain the recreation site before that buyer could realize the highest and best use potential of the 40 acres of waterfront property.

She emphasized that assuming a straight market approach the difference between the full value and the encumbered value is a factor of nearly 10; the property worth \$3.5 million is reduced to \$380,000. If that were the only option for valuation, the Department would recommend against transferring the property, taking the risk that funding would be available 29 years hence, and certainly frustrating the implementation of the State/County plan, and possibly losing other sales to the county. In a government to government transfer such as this one, there is no open market condition under which any buyer could bid on or buy the property, the State has appropriated funds to compensate the trust at fair market value, and continue to provide the recreational opportunities for the general public under County ownership.

She said given that this is not a normal straightforward transaction, DNR is asking the Board of Natural Resources as the Board of Appraisers to make the determination on what the value should be for the trust land to be transferred.

Ms. Bunning said that as Mr. Challstedt would describe in detail, the Department is recommending a transfer value that deducts the remaining 29 years of the original recreational lease value from the unencumbered property value, so that the trust can realize the full appreciation of the property, without charging the General Fund twice for the value of the recreational lease.

She remarked that finally, if the Board recommends transfer to San Juan County, there is one additional detail. Since the Department of Natural Resources actually leased the Shark Reef property from the Board of Natural Resources in 1983 using IAC funds, DNR as the tenant would then execute a release, or termination of lease as part of the transaction details. The Board's agreement to transfer the property would stand in the record as official consent to terminate the recreation lease with the Department.

LAND TRANSACTIONS

Shark's Reef Transaction #02-075466 (Handout 3)

Evert Challstedt began by describing the location as being in San Juan County on Lopez Island waterfront approximately 6 miles southeast of Friday Harbor. The property comprises 39 acres, has county road access and is zoned by the county as conservancy. The entire property is encumbered with an IAC contract and DNR recreation lease.

Recreation Contract & Lease Details:

- In 1983 DNR and IAC signed a contract to fund a 50-year recreation lease. DNR placed a 50-year recreation lease on the property in order to allocate funds to the beneficiary. DNR and the Common School Trust received a one time market value payment of \$500,000 as compensation for the lease. The IAC contract cannot be cancelled, but may be transferred to other property of like value and recreational utility.

Market Values:

The Department obtained third party market values considering the following two assumptions
Recreation contract & lease removed from the property: \$3,500,000

Recreation contract & lease remaining for 29 years: \$380,000

The Department doesn't recommend transferring at either of these two values. Transfer options are as follows:

- 1) Sell for appraised market value of \$380,000. This option is not recommended due to the low value.
- 2) Transfer the lease to a replacement property, and then sell for the appraised market value of \$3,500,000. This option is considered impractical due to the requirement that an alternate property be of equal value and have the same recreation utility.
- 3) Don't sell now, hold for 29 years until the lease and contract expire. Preferred to options 1 and 2, but not the preferred alternative.
- 4) Sell now at a price established by Board of Appraisers (RCW 43.30.215). This is the Department's preferred option. It meets the goals of our management plan and utilizes funds and authority as approved by the legislature.

The following method was used to arrive at a recommended transfer price.

- Market value unencumbered: \$3,500,000
- Residual value of lease: -225,000
- Recommended price: \$3,275,000

The unrestricted value has been reduced by an amount that represents the residual value of the lease. This recognizes that the trust already received compensation for the next 29 years of public use. The residual value was determined by adjusting the \$500,000 paid in 1983 to 2004 dollars with the balance prorated for the 29 years remaining and the product converted to the net present value of 29 annual payments.

Transfer Conditions:

The property and the IAC contract will be transferred to San Juan County for ownership and management. A deed restriction, as required by legislation, will be placed on the property requiring that it be maintained for open space or recreation. Minerals will be reserved by the Common School Trust as required by statute.

Allocation of Values as Required by Legislation:

Land: \$3,257,000

Timber Value: \$18,000

Total Value: \$3,275,000

Benefits:

- Trust divests of isolated property and continues the goals of the county management plan
- Land value will be reinvested in productive land
- Timber value will benefit school construction
- Property dedicated for open space or recreation

Mr. Cook asked if this transfer would cancel out the 50-year lease?

Mr. Challstedt responded that San Juan County would honor that lease for the next 29 years.

Mr. Cook asked what would happen in 29 years?

Mr. Challstedt responded that the IAC contract would go away in 29 years but the Trust Land Transfer deed restriction for open space and recreation would still be in place.

Mr. Bare asked if the \$3.5 million was for highest and best use without regard for the existing lease.

Mr. Challstedt said that was correct.

Mr. Bare added that DNR would be taking the highest and best use and only reducing it for the remaining value of the \$500,000 initial payment.

Mr. Challstedt said that was correct.

MOTION: Bruce Bare moved to approve Resolution #1142

SECOND: Bob Nichols seconded.

ACTION: Motion passed unanimously.

Selah Cliffs Transaction #02-075746 (Handout 4)

Mr. Challstedt began with the location, which is in Yakima County approximately 11 miles northeast of Yakima. The property is 176 acres and without legal access. The appraiser has determined the market value to be \$62,000. The property will be transferred to the Department's Natural Area Preserve Program for management and protection of the rare Basalt Daisy plant, which grows almost exclusively on the north facing cliffs in the river canyon between Selah and Umtanum Creek.

Benefits of the Transfer:

- The Trust divests of isolated property and will reinvest in other land to provide income for the Common School trust. The property will be dedicated to Natural Area Preserve Status.

MOTION: Bruce Bare moved to approve Resolution #1143

SECOND: Bob Nichols seconded.

ACTION: Motion passed unanimously.

Shaw Island Transaction #02-075467 (Handout 5)

Debi VanBuren came forward to present the next three land transactions. She explained that this parcel is Common School Trust and is comprised of 30.62 acres. The property was appraised at \$300,000 (\$10,000/acre). She added that there is no legal/physical access to the property.

Mr. Nichols asked if the County intended to use those parcels for open space?

Ms. VanBuren said yes, they have a land bank that purchases recreation and open space for San Juan County.

Mr. Cook asked how DNR ends up with properties with no legal access?

Ms. VanBuren said that in these particular cases DNR acquired the parcels at Statehood and they didn't necessarily come with access.

MOTION: Bob Nichols moved to approve Resolution #1144

SECOND: Jim Cook seconded.

ACTION: Motion passed unanimously.

Diamond Hill Transaction #02-075468 (Handout 6)

Ms. VanBuren gave the following description of this parcel:

- Common School Trust
- 39.65 acres
- Appraised at \$255,000 (\$6,375/acre)

Ms. VanBuren then talked about the benefits of transferring both Shaw Island and Diamond Hill:

- The state sells property that does not provide revenue to the beneficiary
- Proceeds will be used to purchase replacement land that will provide revenue to build public schools
- San Juan County will acquire valuable public open space identified as beneficial for other public uses, including recreation.

MOTION: Bob Nichols moved to approve Resolution #1145

SECOND: Jim Cook seconded.

ACTION: Motion passed unanimously.

Corson/CEP&RI Intergrant Exchange #86-076899 (Handout 7)

Ms. VanBuren said that this would be an exchange of trusts between the Common School on Corson Avenue in King County and the Charitable, Educational, Penal & Reformatory Institutions (CEP&RI) trust on forestland in Cowlitz County. This was required by 2004 legislation that provides for the lease of the Corson Avenue property to the State Board for Community and Technical Colleges for \$1.00. Community and Technical Colleges is a beneficiary of the CEP&RI trust.

She then gave a brief description of the King County Parcel:

- Corner of Marginal Way and Corson Avenue
- No income generated
- 4 of 11 acres sold to Department of Transportation in June 2004
- Zoned industrial
- 7 acres
- Land value: \$5,080,000

Cowlitz County Parcel:

- Approximately 10 miles east of Kelso
- Possible future transaction
- Zoned for forestry
- 320 acres
- Land value: \$128,000; Timber value: \$4,958,000; Total: \$5,086,000

Before Exchange

Common School Trust had 7 acres for a value of \$5,080,000

CEP&RI had 320 acres for a value of \$5,086,000

After Exchange

Common School will have 320 acres for a value of \$5,086,000

CEP&RI will have 7 acres for a value of \$5,080,000

- CEP&RI trust positioned to physically accommodate a beneficiary's facility needs
- Common School trust receives excellent forest land and income potential from merchantable timber

She stated that DNR held a public hearing and no citizens were in attendance.

MOTION: Bruce Bare moved to approve Resolution #1146

SECOND: Jim Cook seconded.

ACTION: Motion passed unanimously.

CHAIR REPORTS

Mr. Huntingford began by saying that this would be his last BNR meeting in his capacity as Jefferson County Commissioner. He added that he has really enjoyed serving on the Board of Natural Resources and has learned a lot from the Board members and DNR staff. He stated that a new County Representative had been elected to replace his seat on the Board, Ted Anderson, Skagit County Commissioner. He then announced that there would be a special meeting on January 18th to elect a chair and vice chair as required by RCW. 43.30.225.

Independent Review Committee (IRC) (Handout 8)

Jack Hulse, Region Operations Manager, presented. He began by bringing the Board back a few months when Commissioner Sutherland had announced the formation of an Independent Review Committee (IRC) to take a look at the Department's operations and expenditures of the Resource Management Cost Account and the Forest Development Account. He stated that in many ways this action was also connected to the Management Principles and Objectives, which were passed and memorialized by the Board in Resolution 1110, asking for additional financial analysis. He explained that through a series of three meetings the Department went through substantial, in-depth material that he would be providing to the Board shortly. He stated that the committee was provided with briefing materials that served as a foundation to look at a series of facts, information, and policy issues in the context of a charter. He added that the charter provided a filter to look at approximately 160 pages of information, which led to a series of 129 findings and 13 recommendations, all in draft form. He explained that these are in final negotiations with the IRC and they have completed their third and final meeting, a report has been tendered for their consideration, upon evaluation it is anticipated that the report will be transmitted to Commissioner Sutherland in the next two weeks.

He wanted to highlight a couple principles that were enumerated by the IRC:

- 1) Benchmarking costs to other sectors ~ DNR will be participating in two additional benchmark studies ~ one by Price, Waterhouse, Coopers & one by Atterbery Consulting.
- 2) Increasing non-timber revenue (re-positioning of assets)

He concluded by saying that the report acknowledges the work done to date and work done by this Board in setting the Sustainable Forestry Policies and Directions. It also acknowledges the challenges of the present and the future.

Forest Resource Plan Update (Handout 9)

Clay Sprague, Project Manager, Update of the Forest Resource Plan, presented. He began by discussing his agenda for today's meeting. Mr. Sprague commented that the Board might have noted on

the opening slide, a proposal for a new name of the Forest Resource Plan, “Policy for Sustainable Forests”. He noted that the purpose statement that is guiding development of the “Policy for Sustainable Forests” says “Consistent with the fiduciary standards governing trust management, conserve and enhance the natural systems and resources of state forests to produce long-term, sustainable income, environmental and other benefits for all the people of Washington.”

He stated that the policy choices the Board would start to see today were designed, as was the document, to reflect this theme of sustainability. Policies related to Economic Performance; Forest Ecosystem Health and Productivity; and Social and Cultural Benefits work together to ensure long-term sustainable revenue, forest ecosystem health, and a flow of social and cultural benefits. Finally, policies related to implementation ensure the right tools are used in the right way, stakeholders are aware and involved, and board Policy for Sustainable Forests is kept current and meaningful.

He emphasized that his group is specifically recommending the use of the term “Policy” rather than “Policies for Sustainable Forests” to reinforce the fact that all of the policies must work together to ensure sustainable forest management. Working together these policies collectively will represent the Board’s “Policy for Sustainable Forests.”

He said the document titled “Policy for Sustainable Forests” Alternatives Discussion, contains the alternative policies that are being evaluated in the DEIS. The purpose of providing this document, prior to issuance of the DEIS, is to:

- Give the Board and the public an early look at what’s being proposed by the department
- Provide the Board with materials to review prior to meetings later this month and the January Board Meeting

He stressed that this document is very much a work in progress; nothing proposed in here is by any means final. The alternatives, including the Department’s recommended preferred alternative, will all continue to get tweaked, refined and supplemented throughout the remainder of the process.

The limited discussion provided within this document is intended to describe the policy subjects and the differences between the alternatives. It does not contain any environmental impact discussions. The DEIS will have much fuller discussions about the policy subjects, alternatives and environmental impacts at a programmatic level.

Policy Alternatives Document Structure:

- Table of Contents (page 2)
- Index to *Forest Resource Plan* Policies (page 3)
- Plan Purpose and Policy Objectives (page 4)
- Four Major Policy Categories (pages 5-44)
- Policy Subjects
 - o Alternatives
 - o Department’s Preferred Alternative

As Mr. Sprague indicated at the last meeting, later this month the Policy for Sustainable Forests (PSF) group would be meeting with each Board member to review the subjects slated for discussion at the January 4, 2005 Board Meeting. Mr. Sprague said he anticipates these types of informational meetings monthly in addition to the normal board meetings, through May, in order to meet the June deadline.

Board Work Plan:

January:

- Economic Performance

- Forest Ecosystem Health and Productivity

February:

- Forest Ecosystem Health & Productivity (continued)
- Social & Cultural benefits

March:

- Social & Cultural benefits (continued)
- Implementation

April:

- Implementation (continued)
- Preliminary Summary of Draft EIS Comments

May:

- Suite of Preferred Alternatives

June:

- Adoption

Mr. Sprague concluded by stating that for the January meeting the Board would need to focus on the Economic Performance and Ecosystem Health and Productivity through Special Ecological Features on page 15, of the Draft Policy for Sustainable Forests.

Mr. Bare commented that there are many alternatives and combinations and he wondered how they would be looked at in their totality when the SEPA process is complete?

Mr. Sprague responded that the alternatives would be broken down by subject areas and that the DEIS would look at the impacts by subject area and also combine the impacts by the preferred alternative.

Certification Update

Mr. Partridge came forward to brief the Board on where the Department is in the Sustainable Forestry Initiative Certification (SFI). He commented that DNR had completed the office audit last year and then the entity that was trying to raise private funding to complete that audit was having difficulty so the Department used their own resources to complete the field audit. Three teams from an independent auditor spent two weeks in the field looking at over 100 sites; in September 2004 DNR announced that there had been a positive outcome from that audit and were recommended to become SFI certified. There were a couple minor non-conformances that essentially involved taking steps to encourage DNR's timber purchasers to employ loggers that had received certain types of training offered by the Contract Logger's Association; those steps were completed and the Department's Attorney's are now reviewing the licensing agreement to ensure it satisfies their requirements. Mr. Partridge is hopeful that by the January 2005 BNR meeting the Department will be certified under SFI.

Mr. Bare asked where the Department stands on the FSC process?

Mr. Partridge said the Department is continuing to explore that option.

Mr. Mackey talked about the passing of the Sustainable Forestry Plan and how the Department is already gearing up for that process. He then presented each Board member with a signed and framed Sustainable Forestry Certificate.

Mr. Mackey recognized Glen Huntingford for his tremendous efforts on the Board of Natural Resources adding that he was the Commissioner for 12 years and on the Board for 6 years. He commented on the balance that Glen brought to the Board and most noticeably his relaxed and thoughtful demeanor. Mr. Mackey wanted to mention two qualities that he felt were outstanding and were a reflection of his personality both professionally and in general:

- 1) Glen has never displayed negativity whether directed to a situation or person
- 2) Glen has never had an argument with his wife of 29 years!

Mr. Mackey concluded by saying that's the kind of character being honored today. He then presented him with a plaque recognizing him for his dedication to the Board.

Mr. Huntingford thanked Mr. Mackey and the Department. He said that the last six years had been a great experience both with the friendships he made and the information he collected from Board members and staff. He then added that Ted Anderson had arrived and introduced him to the Board.

Mr. Sutherland expressed his deep appreciation and thanks for all that Glen has contributed to the Board, noting that this Board has been one of the finest groups of people to come together in his 25 years of Government service; he added that Glen was a significant part of that. Mr. Sutherland wanted to say thank you for Glen's steady participation, thoughtfulness, and being a collaborative member of the Board.

Mr. Nichols added that it was a personal pleasure to have worked with Glen over these years and he wanted to note one thing that leapt out at him, the fact that Glen always had a smile at the beginning of the meeting, during the meeting, and at the end of the meeting.

Chair Huntingford asked if there was anyone else present wishing to make comment before the Board? Seeing none, hearing none.

Meeting adjourned at 10:23 a.m.

Approved this ____ day of _____, 2004

Doug Sutherland, Commissioner of Public Lands

Bob Nichols for Governor Gary Locke

Bruce Bare, Dean, University of Washington

R. James Cook, Dean, Washington State University (Interim)

Terry Bergeson, Superintendent of Public Instruction

Glen Huntingford, Commissioner, Jefferson County

Attest:

Sasha Lange, Board Coordinator